

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

FIRST-CLASS MAIL PACKAGE SERVICE (FCPS)  
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-2

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
QUESTIONS 1-5 OF PRESIDING OFFICER'S INFORMATION REQUEST NO. 7  
(July 29, 2021)**

The United States Postal Service hereby provides its responses to the above-listed questions of Presiding Officer's Information Request No. 7, issued on July 22, 2021. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HAGENSTEIN TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 7**

1. In Docket No. N2021-1, the Postal Service provided an analysis of the effects of the proposed service standards on urban and rural areas.<sup>1</sup>
  - a. Please provide a similar analysis for all FCPS volume for urban and rural areas, identifying the percentage of urban or rural mail volume that will stay the same, experience a service upgrade, and experience a service downgrade. If the Postal Service cannot provide such data, please explain why not.
  - b. Please provide a disaggregated analysis showing the data requested in subpart a. for FCPS-Retail volume only. If the Postal Service cannot provide such data, please explain why not.

**RESPONSE:**

a.-b. Please see "NonPublic POIR No7 Q1 - Urban Rural\_v1.xlsx" filed under seal on today's date as part of Library Reference USPS-LR-N2021-2-NP16. Please note that this is an estimated impact based on applying percentages of urban and rural delivery points to the volumes originating and/or destined to each 3-digit ZIP area.

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<sup>1</sup> See Docket No. N2021-1, Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service, April 21, 2021, at 24.

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2. Does the Postal Service perform root cause analysis of service performance failure for FCPS?
- a. If so, please provide the root cause analysis performed, citing any available quantitative or qualitative analysis conducted. If there are separate root causes for retail and commercial FCPS, please identify what materials are available with such separation, and provide them.
  - b. If the Postal Service does not perform such analysis, please explain and provide any available quantitative or qualitative analysis previously conducted by USPS, that can provide a comprehensive explanation for all common reasons why FCPS fails to meet service standards and how these reasons might differ for the commercial and retail segments.

**RESPONSE:**

- a. Yes, the Postal Service has root cause analysis for FCPS. Informed Visibility (IV) has various reports and analytical tools, including a Package Processing Performance module, that facilitate investigations into service performance and root cause analysis. Please see "POIR No7 Q2 - FCPS root cause failures - FY20 - NP.xlsx" filed under seal on today's date as part of Library Reference USPS-LR-N2021-2-NP16.
- b. Not applicable.

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3. Please refer to USPS-T-3 at 6, lines 1-2. The Postal Service states that “[k]ey customer segments that use FCPS include marketplaces, pharmaceutical companies, mass merchants, and apparel retailers.” Please provide the proportion of FCPS volume attributable to the customer segment “marketplaces,” showing volume that will experience service upgrades, downgrades, or no changes. If the Postal Service cannot provide such data, please explain why not.

**RESPONSE:**

The percentage portion of total FY 2020 FCPS volume found in the customer segment that the Postal Service identifies as “marketplaces” is provided under seal within USPS-LR-N2021-2-NP17. We believe that modeling the impact of the proposed changes to FCPS service standards on this market segment individually would not yield insightful, helpful market information given parcel market dynamics. Whether, and to what degree, the proposed changes impacts each individual shipper requires an intensive inquiry unique to each shipper. We believe such calculations would be unnecessary as we looked at the representative impact across customer segments. Overall, the service standard for approximately 64 percent of FCPS volume will not be affected, 32 percent of current FCPS volumes with a 3-day service standard would receive a 4-day or 5-day service standard, and 4 percent of current FCPS volumes with a 3-day service standard would upgrade to a 2-day service standard.

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4. Please provide the price elasticities for the retail and commercial segments of FCPS. If these elasticities are routinely provided to the Commission, please identify the docket in which they were more recently filed, as well as the reference number.

**RESPONSE:**

I am informed that, currently, a single equation is estimated for all First-Class Parcels. I am further informed that, previously, separate elasticities for Retail and Commercial were estimated and provided to the Commission (under seal) in the January Demand Analysis filings through January of 2018 (January 19, 2018). Starting in the January 2019 Demand Analysis Filing and thereafter, the two have been combined, and there are no separate elasticity estimates to provide. More details are provided under seal as part of USPS-LR-N2021-2-NP15.

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5. Please discuss how retail and commercial FCPS differ in terms of customer sensitivity to changes in price. Please also discuss how often the Postal Service updates this model, and what changes to the model were been made to reflect the product transfer to the Competitive product list. Please explain how retail and commercial FCPS compare in terms of attributable costs. In your response, please include an explanation of how any costs incurred by either the retail or the commercial category only (and not the other) would affect the cost profile. Please discuss what actions the Postal Service has undertaken to develop separate attributable costs, at the product level, for commercial and retail FCPS.

**RESPONSE:**

In terms of the first portion of this question relating to demand analysis, please see the response to question 4 of this Information Request, filed under seal as part of USPS-LR-N2021-2-NP15.

With respect to attributable costs, although no formal comparison of the unit attributable costs between retail and commercial FCPS was done in FY 2020, the expectation was that retail FCPS costs were greater than commercial FCPS costs primarily because a much larger proportion of retail FCPS volume encounters costly window transactions. As for cost differences in other major functions such as mail processing and transportation, there are some specific mail characteristics that likely result in material, but smaller, unit cost differences between the two categories. In mail processing, unit costs are likely lower for commercial FCPS because more pieces are bulk entered and have better labeling and address hygiene than retail FCPS. In purchased transportation, conversely, unit costs are likely higher for commercial FCPS because, on average, the pieces travel longer distances and are roughly 30 percent heavier,

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on a unit basis, than retail FCPS. My understanding is that the cost differences in mail processing and transportation are probably much smaller than those experienced in window service.

The Postal Service has not conducted a formal analysis to developing separate unit costs for commercial and retail FCPS since FY 2017, when First-Class Mail Parcels (hereafter retail FCPS) was its own Market Dominant product and its financials were reported on the Public Cost and Revenue Analysis (PCRA, USPS-FY17-1) report. In that year, retail FCPS had a unit attributable cost of \$2.51 compared to \$2.02 for commercial FCPS, a difference of \$0.49 between the two categories. Further inspection from FY 2017 shows the piggyback window costs for retail FCPS encompassed \$0.39 or roughly 16 percent of its total attributable costs. Starting in FY 2018, retail FCPS was shifted to a competitive product within FCPS. Since the products were combined, informal approximations have been done to disaggregate the unit attributable costs for retail and commercial FCPS, and typically those approximations merely have assumed that all window costs get assigned to retail FCPS.